

**BEFORE THE PUBLIC UTILITIES COMMISSION**

## DIRECT TESTIMONY

JOHN STUTZ

## The Rhode Island Division of Public Utilities and Carriers

**December 9, 2002**

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1 **1. INTRODUCTION**

2

3 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

4 A. My name is John K. Stutz. My business address is the Tellus Institute (Tellus), 11  
5 Arlington Street, Boston, Massachusetts 02116-3411.

6 **Q. PLEASE DESCRIBE YOUR FIRM.**

7 A. Tellus was formed in 1976. Our initial focus was on energy. Over the years, however, the  
8 scope of our work has grown. Today, in addition to energy, our work includes  
9 environmental policy, solid waste management, sustainable development and water  
10 resource planning.

11 **Q. WHAT ARE YOUR GENERAL BACKGROUND AND QUALIFICATIONS?**

12 A. I am a vice president at Tellus, where I have been employed since 1976. I have extensive  
13 experience with energy-related matters, particularly in the utility industry. I have  
14 appeared as an expert witness before FERC as well as Public Utility Commissions in 39  
15 states, the District of Columbia, and three provinces in Canada. In total, I have appeared  
16 in 167 utility proceedings as shown in Exhibit JS-1. In addition to my energy-related  
17 activities, I work for the U.S. EPA, the OECD, and various state agencies on issues  
18 related to solid waste management and the environment.

19 . I received a B.S. from the State University of New York at Stonybrook and a  
20 Ph.D. from Princeton University. Both degrees are in mathematics. I taught and did  
21 research at the Massachusetts Institute of Technology, the State University of New York  
22 at Albany, and Fordham University. At Fordham, I held the position of associate

1 professor of mathematics and was co-director of the program in mathematics and  
2 economics. I left Fordham to join Tellus in 1976.

3 **Q. WHAT IS YOUR BACKGROUND IN THE AREA OF UTILITY RATEMAKING?**

4 A. My first appearance as an expert witness on ratemaking was in 1979. Since then, I have  
5 presented testimony on a variety of topics including rate design, PURPA standards,  
6 marginal costs, embedded cost-of-service studies (COS studies), fuel adjustment clauses,  
7 cogeneration-related rate issues, and the use of a future test year in utility proceedings. I  
8 have testified on rate-related issues in 109 proceedings involving electric, gas and  
9 telephone companies. Since the early 1980s, I have testified numerous times on behalf of  
10 the Rhode Island Division of Public Utilities and Carriers on electric ratemaking issues,  
11 including the rate-related aspects of Rhode Island's transition to competition. I am  
12 currently working for the staff of the Delaware Public Service Commission and the Nova  
13 Scotia Utility and Review Board on ratemaking matters.

14 My articles and comments on utility-related subjects have been published in the  
15 *Public Utilities Fortnightly*, *The Electricity Journal*, and elsewhere. My paper with  
16 Thomas Austin, "Embedded Cost-of-Service Studies – Issues in the Wake of PURPA,"  
17 was published by *Public Utilities Fortnightly* in 1983. It is cited, in the second section of  
18 Bonbright's *Principles of Public Utility Rates*, as a source of information on electric  
19 ratemaking in general and COS studies in particular. I was the lead author of "Aligning  
20 Rate Design Policies with Integrated Resource Planning," a white paper commissioned by  
21 NARUC and published in 1994. As NARUC's preface to this paper states, Tellus was  
22 selected to prepare this paper largely because of my expertise in both IRP and electric  
23 utility rate design.

## 2. SUMMARY

**Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

A. The purpose is to respond to testimony by Ms. Jeanne Lloyd, Mr. Michael Hager, and Ms. Anne Rodrigues on behalf of Narragansett Electric Company (“Narragansett” or “the Company”) included in the Company’s January 2003 Retail Rate filing, made on November 18, 2002 (the Filing). My testimony focuses on the Company proposals to retain funds which might otherwise be flowed back to ratepayers.

**Q. WHAT ARE YOUR RECOMMENDATIONS?**

A. I recommend that the Company’s proposal, to retain a \$20 million payment as well as \$665,394 in Last Resort over-recovery, and to utilize these funds to the extent required to offset costs due to fuel index payments associated with Standard Offer service, be accepted. However, I recommend that the Company’s proposal to retain \$6.1 million in Transmission over-recovery be rejected. Instead, I recommend that the Company be ordered to refund at least \$3.3 million of the \$6.8 million in Transmission over-recovery, to avoid the proposed increase in the Transmission Adjustment Factor (TAF).

### 3. DETAILED TESTIMONY

**Q. PLEASE DESCRIBE THE COMPANY PROPOSALS THAT DEAL WITH THE RETENTION OF FUNDS.**

A. Three aspects of the Company's filing deal with the retention of funds:

- The Company is proposing to use a \$20 million payment received from a Standard Offer supplier to offset costs for fuel index payments to Standard Offer suppliers.
- The Company is proposing to retain \$665,394 in Last Resort Service over-recovery, and use it to offset fuel index payment costs as well.
- The Company is proposing to retain \$6.1 million out of \$6.8 million in Transmission over-recovery, to balance the \$6.1 million in disputed ISO Tariff expenses deferred by the Company through September 2002.

**Q. DO YOU HAVE ANY COMMENTS ON THE PROPOSED RETENTION OF FUNDS?**

A. Yes, I do. There are two important differences between the first two proposals (jointly the SO proposals) and the third (the TAF proposal). These differences relate to cost recovery and rate impacts.

- **Cost Recovery.** The SO proposals are designed to offset costs which future fuel index payments are likely to impose on the Company. Such costs are recoverable from ratepayers. The TAF proposal is based on disputed costs for which the Company may not be held liable, and for which the Commission has yet to consider ratepayer responsibility.

- **Rate Impact.** The SO proposals do not result in any change in the charge for Standard Offer service. The TAF proposal results in an increase in the TAF which could otherwise be avoided.

**Q. WHY ARE COSTS ASSOCIATED WITH FUEL INDEX PAYMENTS LIKELY?**

A. The Company prepares a forecast of future fuel index payments. Narragansett's forecast is based on a reasonable procedure that relies on publicly available data. Based on the Company's forecast, under-recovery of Standard Offer costs will reach \$18.2 million by September 2004.

**Q. HOW DO THE COMPANY'S SO AND TAF PROPOSALS COMPARE WITH THE COMMISSION'S PAST PRACTICE?**

A. In Docket No. 3402 the Commission permitted retention of the \$20 million and approved a shift of funds between Standard Offer and Last Resort. In Docket No. 3402, the Commission also approved retention of \$5.2 million in Transmission over-recovery, for the same purposes as retention is proposed here. However, it is important to note that, in Docket No. 3402, retention was accompanied by a decrease, not an increase in the TAF.

**Q. DO YOU SUPPORT THE COMPANY'S SO PROPOSALS?**

A. Yes, I do. In Docket No. 3402, the Commission decided in favor of Standard Offer rate stability through 2004. Acceptance of the SO proposals is a logical continuation of, and support for, that decision. The \$20.6 million in retention proposed under the SO proposal is only \$2.4 million above the \$18.2 million in under-recovery the Company projects through September 2004. By year-end 2004, the under-recovery could easily exceed the \$20.6 million. Of course, next year at this time when the Company makes its 2004 Retail Rate Filing, the Commission should review the situation to determine if

1 continued retention of part or all of the remaining balance of the \$20.6 million is  
2 appropriate.

3 **Q. WHAT ABOUT THE TAF PROPOSAL?**

4 A. I recommend that the Company's TAF proposal be modified to avoid Narragansett's  
5 proposed increase of .044¢ per kWh in the TAF charge for 2003. This can be  
6 accomplished by increasing the 2003 over-recovery credit of .010¢ per kWh shown in  
7 Ms. Lloyd's Exhibit JAL-4 to .054¢ per kWh. As shown in my Exhibit JS-2, this would  
8 reduce the amount of Transmission over-recovery available for retention, from the \$6.1  
9 million requested by the Company to just over \$3.5 million.

10 Whether the Company should be permitted to retain the \$3.5 million in  
11 Transmission over-recovery is a difficult question. It remains uncertain if the Company  
12 will be held liable for the disputed ISO expenses and, if it is, whether the Commission  
13 will find that ratepayers are responsible for these costs. Given this situation, refunding the  
14 full \$6.8 million to ratepayers could be the best course of action. However, if the  
15 Commission allows retention of the \$3.5 million in Transmission over-recovery, it should  
16 make it clear that there is **no** implication that disputed ISO costs would be recoverable  
17 from ratepayers. This issue should be settled, if it arises, on its own merits.

18 **Q. DOES THIS COMPLETE YOUR TESTIMONY?**

19 A. Yes, it does.



**Dr. Stutz's Testimony Before Regulatory Commissions**

STATE	APPEARANCES		STATE	APPEARANCES	
	<u>Ratemaking</u>	<u>Planning</u>		<u>Ratemaking</u>	<u>Planning</u>
Alabama	1		Minnesota	2	
Arizona	4		Mississippi	1	
Arkansas	1		Nevada	4	3
Canada	6		New Jersey	5	
Colorado	5	4	New York		5
Connecticut	3	3	New Mexico	5	
Delaware	1		New Hampshire	1	
District of Columbia	1		North Carolina	3	
FERC		3	Ohio	5	1
Florida	1	3	Oregon	1	
Georgia		1	Pennsylvania	2	4
Hawaii		1	Rhode Island	16	3
Illinois	1	3	South Carolina	1	
Iowa	1		Tennessee	1	
Kansas	1		Texas	7	1
Kentucky	1		Utah	2	
Louisiana	2		Vermont	3	1
Maine	11	5	Virginia	1	
Maryland	2		Washington		1
Massachusetts	1	4	West Virginia	3	
Michigan	2	12	Wisconsin	1	
				Total <u>Ratemaking</u>	Total <u>Planning</u>
				109	58

**TRANSMISSION OVER-RECOVERY AVAILABLE  
FOR RETENTION WITH NO INCREASE IN TAF**

Proposed Increase in TAF for 2003	\$ .00044
2003 Forecast kWh Sales	7,497,000,000
Total Amount of Proposed Increase	\$ 3,298,680
Transmission Reconciliation Balance through September 2002	\$ 6,844,617
Balance Available for Retention with No Increase in TAF for 2003	\$ 3,545,973